Bank of Montreal at the RBC Global Financials Institutions Conference

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We caution that the foregoing list is not exhaustive of all possible factors. Other factors and risks could adversely affect our results. For more information, please refer to the discussion in the Risks That May Affect Future Results section, and the sections related to credit and counterparty, market, insurance, liquidity and funding, operational non-financial, legal and regulatory, strategic, environmental and social, and reputation risk in the Enterprise-Wide Risk Management section of BMO's 2024 Annual Management's Discussion and Analysis ("2024 Annual MD&A"), as updated by quarterly reports, all of which outline certain key factors and risks that may affect our future results. Investors and others should carefully consider these factors and risks, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. We do not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by the organization or on its behalf, except as required by law. The forward-looking information contained in this document is presented for the purpose of assisting shareholders and analysts in understanding our financial position as at and for the periods ended on the dates presented, as well as our strategic priorities and objectives, and may not be appropriate for other purposes.

Material economic assumptions underlying the forward-looking statements contained in this document include those set out in the Economic Developments and Outlook section of BMO's 2024 Annual MD&A, as well as in the Allowance for Credit Losses section of BMO's 2024 Annual MD&A, as updated by quarterly reports. Assumptions about the performance of the Canadian and U.S. economies, as well as overall market conditions and their combined effect on our business, are material factors we consider when determining our strategic priorities, objectives and expectations for our business. In determining our expectations for economic growth, we primarily consider historical economic data, past relationships between economic and financial variables, changes in government policies, and the risks to the domestic and global economy.

Non–GAAP Measures and Other Financial Measures

Results and measures in this document are presented on a generally accepted accounting principles (GAAP) basis. Unless otherwise indicated, all amounts are in Canadian dollars and have been derived from our audited annual consolidated financial statements, prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board. References to GAAP mean IFRS. We use a number of financial measures to assess our performance, as well as the performance of our operating segments, including amounts, measures and ratios that are presented on a non-GAAP basis, as described below. We believe that these non-GAAP amounts, measures and ratios, read together with our GAAP results, provide readers with a better understanding of how management assesses results.

Management considers both reported and adjusted results and measures to be useful in assessing underlying ongoing business performance. Adjusted results and measures remove certain specified items from revenue, non-interest expense, provision for credit losses and income taxes, as detailed on page 39. Adjusted results and measures presented in this document are non-GAAP. Presenting results on both a reported basis and an adjusted basis permits readers to assess the impact of certain items on results for the periods presented, and to better assess results excluding those items that may not be reflective of ongoing business performance. As such, the presentation may facilitate readers' analysis of trends. Except as otherwise noted, management's discussion of changes in reported results in this document applies equally to changes in the corresponding adjusted results.

Non–GAAP amounts, measures and ratios do not have standardized meanings under GAAP. They are unlikely to be comparable to similar measures presented by other companies and should not be viewed in isolation from, or as a substitute for, GAAP results.

Examples of non-GAAP amounts, measures or ratios include: pre-provision pre-tax income, tangible common equity, amounts presented net of applicable taxes, adjusted net income, revenues, non-interest expenses, provision for credit losses, earnings per share, return on equity, return on tangible common equity, and adjusted efficiency, leverage and PCL ratios, growth rates and other measures calculated using adjusted results, which exclude the impact of certain items such as acquisition and integration costs, amortization of acquisition-related intangible assets, impact of divestitures, management of fair value changes on the purchase of Bank of the West, and initial provision for credit losses on Bank of the West purchased loan portfolio. BMO provides supplemental information on combined operating segments to facilitate comparisons to peers.

Certain information contained in BMO's Management's Discussion and Analysis dated February 25, 2025, for the quarter ended January 31, 2025 ("First Quarter 2025 MD&A") is incorporated by reference into this document, including the Summary Quarterly Earnings Trend section in the First Quarter 2025 MD&A. Quantitative reconciliations of non–GAAP and other financial measures to the most directly comparable financial measures in BMO's financial statements for the period ended January 31, 2025, an explanation of how non–GAAP and other financial measures provide useful information to investors and any additional purposes for which management uses such measures, can be found in the Non–GAAP and Other Financial Measures section of the First Quarter 2025 MD&A. Further information regarding the composition of our non–GAAP and other financial measures is provided in the Glossary of Financial Terms section of the First Quarter 2025 MD&A. The First Quarter 2025 MD&A is available on the Canadian Securities Administrators' website at www.sedarplus.ca and BMO's website at www.bmo.com/investorrelations.

PRESENTATION

Darko Mihelic – *RBC Capital Markets - Analyst*

Welcome to the next session and delighted to have Tayfun Tuzun, from Bank of Montreal, the Chief Financial Officer here. Welcome to the conference.

Tayfun Tuzun – *Bank of Montreal – CFO*

Thank you for having us.

Darko Mihelic – *RBC Capital Markets - Analyst*

I've been starting and kicking off all of these sessions in the same way, so I'm not going to break from the pattern for my last session. So, Tayfun, I'd love to get your initial take here on tariffs and maybe just how are you thinking of this? And what are the processes and thought processes that you're going through with respect to tariffs and give us an idea of your initial reaction here. I'll leave it very wide open and let you just sort of take a look.

Tayfun Tuzun – *Bank of Montreal – CFO*

Okay. Look, we are obviously watching the flow of information coming in and we're digesting. And we have been, of course, since the end of the first quarter, focused on this topic. First, we had to make a call on the first quarter results, and I can get into that from a provisioning perspective, without having a perfect insight as to what the new administration was planning. And now, obviously, with five weeks since then and the developments, we have a firmer perspective, but it doesn't appear to be the final form of a new tariff regime. It's still a developing situation.

What I will tell you is we are in the business of risk management and as such we have an established risk appetite. Within that risk appetite, whether it's where we invest our money, where we manage our expenses, how we manage our credit, we do that within a framework of probability distributions. We can't make those decisions solely based on a base case and as such, these stress scenarios are always on our radar screen. Now, this is a different type of a stress scenario. We haven't seen a similar one. And therefore, it is throwing a bit of a curveball in gauging the impact. The impact on Canada is clearly very, very important. We roughly estimate 20% of Canadian GDP is exposed to one form or another of these tariffs. And we operate on both sides of the border. And the size of our commercial book, for example, is similar, is within the ballpark on both sides. We have a lot of customers who cross the border, and we get to see that activity.

And the other factor that we need to take into account, as BMO, is we have a very strong balance sheet with strong reserves, whether it's capital or liquidity, we're sitting on 13.6% CET1 and plenty of liquidity on our balance sheet. And we are in a very good position to support our clients wherever they need us. And today, we're spending a lot of time with them. Our approach is we're taking two different paths into identifying where some of our exposures are. One is a top-down impact where we are using our normal stress test models and looking at industries that are more affected than others, manufacturing, automotive, in agriculture, and utilizing a well-established technique internally.

And then the second approach that we are taking is a very intense dialogue with our clients. It's a bottoms up approach, because as much as the models can give us directional color on where exposures are, each client has a unique profile, and as such, each client is exposed differently. So we're utilizing both methodologies.

Clients are not sitting still, because since the election results, the probability of a stressful tariff environment has continued to get closer to reality. And as such, they had a little bit of time to prepare. Many contingency plans have been activated. We are seeing and expecting a level of conservatism in the way they run their financial resources. As such, we are expecting more liquidity in the system. We are witnessing a higher degree of hedging activity, foreign exchange in this business is important as a factor so that's part of their financial management approach.

We are seeing some activity where clients are diversifying their manufacturing base into America. It could be just a small number of M&A activities. So collectively, I believe that these clients are preparing themselves. The unknown factor here is the time dimension, because if it's only for 90 days or 180 days, you can hunker down, you can actually use your existing financial resources and survive if there is a solution at the end of the tunnel, that takes us away from the current levels. And in the political arena, those discussions are still going on. It's hard to predict where it's going to end up, but if it ends up being a longer period of time when we are under this regime, then we're going to see stress. So that stress will manifest itself probably sooner in the form of performing PCL build-ups. The accounting rules are relatively well-defined, so therefore, without a firm outlay of the tariff policies, we were not able to incorporate them into our base case economic scenarios and therefore they were not built into our stress case scenarios either. So we chose to approach this with an overlay that was included in our first quarter, PCL build-up was about $152 million, I think.

And this quarter now it is built into our base case. Our economics department is predicting that the Canadian economy will move into a mild recession with rising unemployment. Those will be incorporated into our base case. And then accordingly, we also have our two stress case applications. And I suspect that we will need to build more.

On the impaired side, my expectation is it will take time to notice any significant changes on credit performance. I don't expect any immediate fall-off, but if the regime is believed to be permanent or long enough, then some clients will run into problems. And that's inevitable given the exposure that the Canadian economy has.
But ultimately, I think an equilibrium will be established. Now, that equilibrium is likely to also contain additional Bank of Canada rate actions. And I suppose that they have displayed their willingness to decide on a timely basis what the rate regime should be all last year. And I think that given the outlook, they will be proactive. And I also believe that, maybe not similar to the programs established during the COVID environment, that there will be some policies geared towards supporting those industries and those segments of the economy that are more exposed. So we will see some support from there.

I have no insight as to what OSFI is going to do, but I can only rely on their previous announcements about these buffers. The DSB buffers are really buffers and they are willing to adjust them as needed. But realistically, given the fact that Canadian banks are all operating at a very healthy capital level, if OSFI decides to do something different than what they are doing today, it will be in the near-term more symbolic, because we all have enough capital to support the economy, and we will. But in the long-term it may help to also get some relief in the long run from the regulator. But again, I don't know how they're thinking about that.

So, like I'm describing an environment that has many factors and that's how internally we are digesting the news and then turning around and applying it either in our financials or with respect to our relationships broadly with our clients.

Darko Mihelic – *RBC Capital Markets - Analyst*

Okay. That was a great fulsome answer. I want to sort of follow up in a couple of spots, if I may. I think the one thing that set you apart last year was that you had elevated provisions for credit losses and impaireds, and you gave us a sort of a pathway for to see these sort of decline in 2025. Is that at risk now that we have this tariff environment, or is that really just a contained view of what's currently on the watch list and what you can sort of see and feel and touch? Or should we sort of step back and say, well, maybe that pathway towards a lower, I don't want to say normalized loss rate, but we know what your guidance is, but maybe that pathway is now at risk. How would you react to that question?

Tayfun Tuzun – *Bank of Montreal – CFO*

Look, I think last year surprised us, surprised you, surprised our investors and we spent a good deal amount of time to decipher the underlying changes in our portfolio that caused the uptick in our impaired provisions. And the provision peaked in Q4 and as we anticipated, Q1 impaired provision came down to 50 basis points from 66 basis points. And notwithstanding the tariff impact, our outlook for this year remained the same. When we had our call last week, we said our expectation ex-tariffs remains that we will end the year, the exit rate will be closer to our historical range than to 66 basis points.

Now it is undeniable that if the Canadian economy goes into a recession, there will be additional credit issues and I think a rising unemployment level to 8%, a negative growth rate, are going to change the credit outlook if, again, this becomes permanent. But my comment on that is I don't expect BMO to be an outlier as to the marginal impact of the change due to the tariff environment. I believe that it's going to likely elevate losses in the Canadian banking system and we'll basically experience our share. And that's really the work that we are doing today to sort of identify those client segments that are more exposed that may pose a bigger problem for us in the future.

Darko Mihelic – *RBC Capital Markets - Analyst*

And so you gave us a data point early in this discussion that your initial view is that 20% of the GDP of Canada is at risk, how can we translate that to your balance sheet? What are your exposures? What do you see as relatively sensitive for you to these tariffs and how should we think about that?

Tayfun Tuzun – *Bank of Montreal – CFO*

I think it's the same industries for us as it is for all the Canadian banks, starting with manufacturing, automotive, agriculture. We disclose our outstanding balances in these sectors. I would just caution you that our totals include our U.S. loans. And they're not that far away from each other. So size wise, we have a large size exposure in the U.S. that are obviously not going to experience the same type of impact.

Our intent would be, Darko, that as we sort of get for sure at the end of the quarter, but if we have opportunities in a public manner, we'll try to give you more colour a bit deeper as to even within those large segments, whether it's manufacturing, automotive, there are sub-sectors that are more exposed than others. For example, in the automotive book, we have a large dealer floor plan loan book, and that loan book is not going to be exposed to the same way as a parts manufacturer may be exposed. So we just need to do the work and then make the appropriate disclosures, so that you guys can actually correlate some of our credit expectations to the underlying data.

Darko Mihelic – *RBC Capital Markets - Analyst*

So it's like any credit cycle I can recall when the price of oil fell and suddenly I was learning about upstream, midstream and all that kind of stuff. So I'm sure that's what we're looking forward to, so we look forward to that. And a shameless plug for RBC we do publish the statistics that he’s been talking about in our chart book every quarter and we have to update it now for the quarter that just went by. I'm not like Gerard, I'm not capable of telling you what page it's on, but we do publish it.

Tayfun Tuzun – *Bank of Montreal – CFO*

Gerard has been doing it for longer than you have. So, he has a better memory, longer memory.

Darko Mihelic – *RBC Capital Markets - Analyst*

And so, veering away from credit and let's just talk about your expectations now for growth on both sides of the border.

Tayfun Tuzun – *Bank of Montreal – CFO*

Yes, the last two years proved us wrong. When we started building our plans at the end of 2022 and at the end of 2023, we anticipated a better environment in the U.S. post Silicon Valley stress, where we would experience better loan growth in the U.S. compared to Canada. That didn't happen. Canada continued to grow at a steady pace. Both our balance sheet in Canada and our income statement in Canada has really shown very good performance metrics. As opposed to the US, where we really haven't seen much growth since the Silicon Valley crisis, flat is a good number in the U.S. industry. We had done a little bit better than our peers, but really we're talking about like 0.5% growth or something like that.

So coming into this year and especially post-elections, although pre-tariffs, we were not predicting the scene in Canada to change much, so we still were predicting steady growth, especially with lower rates having a positive impact on mortgage growth more so than the last two years. And then steady growth in the commercial sort of 1%-1.5% type on a quarter-over-quarter growth. And then in the U.S., when we were going into the elections and immediately post-elections, our conversations with clients suggested that there would be a pickup, but those were still in a conversation form. We were not necessarily observing pipelines moving on to real activity, and therefore we shifted our expectation for a second half turn up. And that still is our base case. I think we still are expecting the second half to show signs of loan growth and combined with a fairly strong investment in our sales force, especially in our California markets, et cetera, we should be able to benefit from that upturn.

Now, what's the caveat? The caveat is the overall level of uncertainty in the U.S., although it may not be tariff related, is still sort of creating a bit of a wait and see environment. But we're not changing our outlook. We're still sort of holding on to our expectation that second half will start showing growth signs. In Canada, now we are obviously taking another look at this steady growth expectation under the tariff regime. And again, it's very difficult to divorce the trends in the GDP from the trends in loan growth in Canada. So, if GDP truly starts slowing down, I suspect that Canadian loan growth will also slow down.

Darko Mihelic – *RBC Capital Markets - Analyst*

And maybe just sticking to the U.S., because one of the things with your bank is that you've committed to an improvement in the ROE. And you've committed to it within a medium timeframe. And this quarter you decided to give us a bit of a, as you sort of zoomed in a little bit on the U.S. And you gave us a few pockets of places where you're hoping for some improvement. And two of them caught my eye, really. One was operating performance and the other one was capital. And so maybe you can just touch on both of those, because I want to zoom in a little bit on what you mean by operating and what you mean by capital efficiency.

Tayfun Tuzun – *Bank of Montreal – CFO*

Yes. So at the end of last year, we shared our expectations with respect to the BMO ROE path. And then we took it down one level this quarter and we showed you the U.S. Because U.S. was part of the four blocks within the BMO ROE path. The BAU operating performance box refers to our commitment to at least 2% positive operating leverage for the next three years, which has been an outstanding commitment for us. And we actually delivered that last year. And also sort of the normal level of participation - my expectation is U.S. loan growth should resemble a nominal GDP type pattern, right. So this is a normal operating expectation within those guidelines, separate from the Bank of the West related-revenue capture. We separated those two because we had identified a US$450 million to US$500 million of revenue capture, when we announced the transaction. We delayed it because of the environment, but we are still keeping that ambition. So that would be on top of our normal regular growth patterns that we believe is our fair share. So that plus the second box, which is the Bank of the West related revenue growth, are two separate pieces of the ROE path.

The capital piece and we call it balance sheet optimization. And it truly is balance sheet because it impacts the deposit side as well as the loan side. So on the deposit side, we acknowledge that our current cost of funds is higher than our peers for a couple of different reasons. One is in our deposit book, the contribution that our consumer business makes is smaller than other regional banks in the U.S. And our goal is to over the next three years, inclusive of our efforts in California, to grow the percentage of consumer deposits and thereby to capture that delta between us and the peer group. And away from the composition difference within the deposit portfolios, our share of higher priced products, MMDAs, term deposits, et cetera is higher than our peers. So we're working to adjust them and converge to peer group averages. And that's actually a meaningful contribution.

On the loan side, there are three layers. The basic layer is relationship level. You should argue, you guys should be doing this day-in, day-out. But I have to tell you that there is now a significantly more focused analysis on a relationship by relationship basis on returns, including lending and fee products, capital markets, wealth management. And if we do not believe, with enough time under our belt with that relationship, we have a chance to get to our target return levels, we will exit the relationship at the first opportunity and redeploy it to other places. So that's the basic first layer.

The second layer is a portfolio review, portfolio by portfolio. We are going through segments of our loans and if we don't believe that a certain group of loans, certain type of loans are not expected to meet return targets, we will either let them attrite and with no renewals, let them slowly attrite or you could see us on a small portfolio basis transacting exiting those portfolios.

And then the third level is more at the business level. Are there certain businesses that are unlikely to produce return targets in our relationship banking approach. And if that's the case, then, we may choose either, again in two forms, we can either let the business slowly attrite or potentially find a different form. And that form could be partnering with somebody, there are different forms of exiting those types of businesses. And that is also very much, we're looking at it, we're looking at the businesses. I don't have a business today that I can tell you where we have made the decision because these are complex analyses. We really need to look at full cycle performance of any given business, the relationships, we're not giving up - is this business creating or is likely with a different approach, can we create more fee relationships other than just single lending opportunities with these clients? So that analysis will take some time and once we go through that, then we will make decisions and that's that capital box basically in the US.

Darko Mihelic – *RBC Capital Markets - Analyst*

So there's a period of analysis, then decision making and then implementation. Is it still on the same timeframe?

Tayfun Tuzun – *Bank of Montreal – CFO*

Yes. We're keeping that same three-year timeframe.

Darko Mihelic – *RBC Capital Markets - Analyst*

Okay.

Tayfun Tuzun – *Bank of Montreal – CFO*

A big piece of this is I don't want to necessarily paint a picture of exits, creating that capital optimization opportunity. For us, it's really redeployment that matters more because it's ultimately, we still have very ambitious growth plans in the U.S. We believe that we have still profitable opportunities. It's restock, redeploy and continue to invest that's sort of, we still are on a growth pattern. It's just where we find those resources to move out of and then into that's the analysis that's taking place.

Darko Mihelic – *RBC Capital Markets - Analyst*

And getting back to the cost of funds and the changes that you want to do on the deposit side. Is there any indication that this is sort of somewhat driven by legacy Harris or Bank of the West or is this, because when I think of when you'd married, I thought for a moment there would have been more consumer deposits in the Bank of the West, I may be wrong?

Tayfun Tuzun – *Bank of Montreal – CFO*

Yes. The Bank of the West had more consumer deposits than we did at the legacy BMO, but the impact was not large enough to take the combined composition back to the peer level. We do a great job in commercial deposits. We really have a first-class treasury management system and we don't really necessarily want to downshift commercial deposit growth, but we have opportunities where we can at the edges trim pricing and go after more profitable deposit relationships.

Darko Mihelic – *RBC Capital Markets - Analyst*

And sales force. If you size the increase in the sales force in California for anybody?

Tayfun Tuzun – *Bank of Montreal – CFO*

We have been adding since the acquisition. I don't have the number in front of me, but you know, that's sort of as we find talent, we're adding more talent, and that's across both, the more significant increases are in commercial and wealth management.

Darko Mihelic – *RBC Capital Markets - Analyst*

I apologize. Did I forget to ask if there's any questions from the audience, because we're running out of time. So, okay. Maybe just the last question and while I've got like a little bit of time here. You had announced a buyback, and last week when you reported earnings, you talked about actually buying back an aggressive amount of stock, has that changed now?

Tayfun Tuzun – *Bank of Montreal – CFO*

No. 13.6% quarter ending capital, management target remains at 12.5%. That's over 100 basis points of capital capacity. That's enough to support loan growth, manage the environment as well as buy back stock, I anticipate today unless any big changes occur over the next two, three quarters that we have an ability to get to 12.5% by the end of the year.

Darko Mihelic – *RBC Capital Markets - Analyst*

Okay. Well, with that, we've come to the end of our sessions with Tayfun. Thank you very much.

Tayfun Tuzun – *Bank of Montreal – CFO*

Thank you for inviting us.

Darko Mihelic – *RBC Capital Markets - Analyst*

Thank you.
